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WAN ZUL'S GAME PLAN

THESE are tumultuous times for the oil and gas industry, with even Petronas coming under great pressure. But the Fortune 500 corporation's president and CEO is determined to turn the challenges into opportunities to address inefficiencies, and, ultimately, to maintain profitability.

→ **REPORTS BY A JALIL HAMID
AND MUSTAPHA KAMIL**
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Pic by Osman Adnan



PRIME NEWS

Steering through tough times

**A JALIL HAMID
AND MUSTAPHA KAMIL**
KUALA LUMPUR

ACKNOWLEDGING that the current global oil price doldrums could be prolonged, Petronas has mapped out a six-point strategy to help the oil giant tide over the trying times and to stay profitable.

Outlining his game plan, Petronas president and group chief executive officer Datuk Wan Zulkiflee Wan Ariffin said it would weed out inefficiencies, manage costs, cut back some capital expenditure and seek more revenue.

In an exclusive interview with the *New Straits Times*, his first with the media since assuming his job on April 1, Wan Zul said his set of challenges were markedly different from his predecessors.

The low oil price environment comes at an unfortunate time when the country's biggest company has committed to three huge oil and gas projects that are unprecedented in its 41-year history.

"What we anticipate is that this will be a prolonged environment of low oil price. It is not a sudden dip in a cycle or anything," Wan Zul, the 54-year-old chemical engineer by training, said in his office on the 81st floor of the Petronas Twin Towers.



Q&A with Datuk Wan Zulkiflee Wan Ariffin

Q: What is your take on the overall oil and gas industry?

A: What we anticipate is that this will be a prolonged environment of low oil prices. It is not a sudden dip in a cycle or anything. We think this would be prolonged because of the structural shift in the industry. And with many things happening at the same time, this confluence of world events has caused impact. When we look back, this is similar to what we experienced in 2008, where that, too, took quite a few years before prices picked up again.

This time around, I think technology really made a big shift, such as the United States shale producers, something that people did not expect to come at so fast a pace. Also, Opec (Organisation of the Petroleum Exporting Countries) did not perform the role that they normally do to act as a price stabiliser. We also have this scenario of lifting of the sanctions on Iran. Iraq is now producing higher than before.

On the demand side, the global gross domestic product has been lowered. Even the latest forecast has been lowered. China is a big

issue here in terms of demand, and not many people realise the technology and increase in efficiency issue. In Japan for example, we see a drop in demand for petrol because efficiency plays a big role in terms of consumption. I think this will come with more and more efficient cars, hybrid cars, better batteries. So all this has got an impact. We also see the industry experiencing this where players need to recalibrate their expectations in terms of returns that they were used to. We are doing the same.

Q: Do you see this kind of timeline (like in 2008) this time around?

A: We are all afraid to use our crystal balls now. We plan our budgets to be conservative.

Q: When you say the industry must recalibrate, Petronas included, what does this mean to the layman?

A: For Petronas, these few years is about cash management. When prices dropped, cash flow from our operations also dropped. First half

results compared with the same period last year, it was a 43 per cent drop in terms of profits. In terms of cash flow, it was a 30 per cent drop.

This is the period where we commit to very big projects. Never before in the history of Petronas have we undertaken capital projects of this size. These include RAPID (refinery and petrochemical integrated development) Johor, the Floating Liquefied Natural Gas (FLNG) project and, hopefully, our Canadian project. Just one more approval before we can proceed with the projects.

Now the demand for capex (capital expenditure) is high and, at the same time, prices dropped, so we are focused on staying profitable. We can do it. I'm confident we can remain profitable during this cycle. There are measures that we have to take and this is a good window of opportunity for us to address the inefficiencies within the organisation, and the Malaysian oil and gas industry.

So, the first to be affected will be the players in the Malaysian oil and gas industry. When we reviewed our capex programmes, there was a cut-



One of the largest LNG facilities in British Columbia, this facility will receive gas from a joint venture in Alberta.

back. The organisation responded very well. We cut 23 per cent of our operating expenditure. That is not a small number. It means that there are many things that we have to do differently, for example, eliminating discretionary spending, cutting down travelling expenses and relying more on information technology facilities. I was looking at the data on linked video conferencing; it went

up this quarter. We are adjusting internally.

I took this opportunity to step back to see what the focus areas are for this organisation.

It is more like addressing the inefficiencies. When the oil price was high, these inefficiencies were not obvious. But when times are more challenging, inefficiencies become more apparent.

Wan Zul a man with a mission

TO the top man in Malaysia's No. 1 company, the much sought-after work-life balance is a subjective issue.

"If you feel comfortable spending 12 hours in the office, then that would be your point of balance," Petronas president and group chief executive officer Datuk Wan Zulkiflee Wan Ariffin said.

With a 32-year track record at the national oil corporation, Datuk Wan Zul, or DWZ as they know him within the behemoth twin towers that house Petronas, has seen the company grow from its humble beginnings to a now integrated international oil and gas company, and the only Malaysian company listed in the coveted global Fortune 500.

"I stay on because I always feel like I am part of a winning team," he told the *New Straits Times* in a frank interview, the first he gave to the press since assuming the number one position in April.

While an outsider may think being responsible for some 51,000 staff members of about 70 different nationalities as a monumental task, Penang-born Wan Zul is sanguine about his role.

"It is impossible for the CEO to know everything in such a big organisation. The system must work for the CEO," he said.

For seven months after being appointed to the post, Wan Zul spent plenty of time rallying his commanders and troops around him and the company which, by then, was pinned down by the drastic drop in global oil prices.

It was a matter of making several realignments, as instead of whining about the weak business environment, Wan Zul opted to look for opportunities within the increasingly

chaotic oil and gas industry.

He took several steps backwards to have a better perspective of the company and saw several shortcomings that could be rectified even in the weak business environment.

As it grew over the years and enjoyed life in the limelight, Petronas has taken its eyes off one thing. The company has been laden with processes, many of which have been rendered obsolete by technology.

Wan Zul said he wanted to cut unnecessary processes and simplify work in the company so that the time spent making reports, for instance, could be utilised in revenue-generating activities.

Wan Zul, who attended the Malay College Kuala Kangsar, is the first Petronas chief with a technical background. He graduated with a degree in chemical engineering from the University of Adelaide. Later, he attended the INSEAD senior management development programme and also the advanced management programme at the Harvard Business School.

Married with three kids — two boys and one girl — Wan Zul listens to music, the American singer Bruno Mars among his favourites.

He enjoys driving high-performance cars and travelling, and occasionally looks forward to being in the open and green fairways of a golf course. More of a social golfer, he plays to a 22.

He also likes Indian food and follows the United States television series *Burn Notice*, an action-packed series about a formerly blacklisted spy who uses his unique skills and training to help people in desperate situations.

really focused on.

"I'm confident we can remain profitable during this cycle. Just that there are many measures that we have to take.

"This is a good window of opportunity for us to address all the inefficiencies that we have, within the organisation and also the Malaysian oil and gas and industry."

Petronas will cut back some capex programmes, he said, adding that it has already cut 23 per cent in operating expenditure.

Wan Zul said his six-point strategy is as follows:

Cash generation. "What I mean by cash generation is our plants must be running tip-top, running all the time, we must sell our products at the best value we can get, so it has to be all across the value chain."

Delivering on growth projects. "These include RAPID, floating LNG, more projects in Sabah and hopefully very soon the project in Canada. We need to deliver these projects well, no cost overruns and on time and with good health and safety levels."

Striking down costs and simplification. "We are reviewing some of the processes that hit across the group." These include HR, procurement and planning processes.

Investing in technology.

Talent management. "We are not cutting back on talent management spending but I just want to be sure that the money is well spent and we spend in areas that we really need to spend.

We are looking at how we can do this better."

Improving work culture. "We are teaching the group starting with the senior staff on ways to improve our working culture."

Wan Zul said oil and gas projects that have already been sanctioned will go ahead. But the company would also ask for rebidding for some of the packages in the RAPID project to reflect lower prices of raw materials.

He said the cutback in Petronas capex would have an impact on service providers. "I think there has been retrenchment and downsizing within the service providers."

"Today, if I look at the number of companies, I think the latest number is around 3,700 oil and gas service providers. But Norway has only about 700, which means many of our companies are small and the industry is very fragmented."

"We are encouraging consolidation. I know it is painful but I think this is the way to go since by doing so the industry will be more efficient once we get over this challenging period."

Wan Zul said Petronas, with a 51,000-strong workforce, has no immediate plans to lay off its staff. He said some have been redeployed to RAPID.

He said Petronas would continue to hire new staff but at a slower pace. "The hiring will continue but maybe at a slower pace. We still need to bring in new people. We have not come to a point where we have to rightsize."

of the processes, such as human resources, procurement and planning processes. These are the three processes we are looking to simplify.

If we are able to simplify and reduce man-hours, the man-hours saved can instead be allocated for cash generation. These will be our short-term measures.

Fourth is the importance of technology. You cannot deny that we are a technology company and technology will be our differentiator in the long run. Technology like shale technology has upset the industry. It has brought down demand from Japan. I think technology plays a key role. We will continue to invest in technology.

Fifth is talent management. Last year, we spent RM500 million on talent management. I want to be sure that every ringgit we spend on talent management is well spent. We are not cutting back on talent management spending, but we must make sure that we spend in areas that we really need to spend. We are looking at how we can do this better.

This is to ensure that there are enough leaders in the pipeline for succession planning and to drive the business forward.

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A Petronas floating LNG being constructed. Pix courtesy of Petronas

In the next few years, Petronas should focus on one, cash generation. What I mean by that is our plants must be in tip-top condition — running all the time — and we must sell our products at the best value we can get, so it has to be all across the value chain.

Secondly, we need to deliver on our growth projects — RAPID, FLNG, more projects in Sabah and

the project in Canada. We need to deliver these projects well, with no cost overruns, on time and with good health and safety levels.

The third one is striking down costs and simplification. Like in any large organisation, we tend to add on more procedures and processes but seldom take the time to step back and eliminate things that we don't need. So, we are reviewing some

INFOGRAPHIC: NST

Biodata of Datuk Wan Zulkiflee Wan Ariffin

Age: 54

Qualification: Bachelor of Engineering in Chemical Engineering from the University of Adelaide, South Australia

Career:

- **1983** — Joined Petronas in 1983 as a process engineer in the development of several gas processing plants. In the ensuing years he held various positions in the Petronas Group, including serving in the office of the president as executive assistant to the president, general manager, International Projects Management Division of OGP Technical Services and general manager for the Strategy and Business Development Unit
- **2000** — Attended the INSEAD Senior Management Development Programme
- **2003 to 2007** — Managing director and chief executive officer of public-listed subsidiary, Petronas Gas Bhd

- **2004** — Attended the Advanced Management Programme at Harvard Business School
- **2005** — Was conferred an honorary fellowship by the Institution of Chemical Engineers, United Kingdom
- **April 2006 to April 2010** — Vice-president of Gas Business
- **2012** — Appointed chief operating officer of Petronas; executive vice-president and chief executive officer of Downstream Business; also the chairman of Petronas Chemicals Group Bhd and Petronas Dagangan Bhd
- **April 2015** — Appointed president and Group CEO of Petronas
- **Other positions** — He is a board member of Johor Petroleum Development Corporation Bhd and the industry adviser to the Engineering Faculty, Universiti Putra Malaysia. He is also a permanent member of the National Petroleum Advisory Council of Malaysia, a Council Member of the East Coast Economic Region Development Council (ECERDC) as well as chairman of the ECERDC's Audit Committee.

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In Petronas, take engineers for example, they need to go through an assessment process before they are promoted. This is the same for the senior guys, but by third parties to make sure there is merit.

So, we are continuing with talent development even in these tough times.

Sixth and the last one — this is quite new for the organisation — is work culture. In the past, there were a lot of things we could not achieve because of our work culture. We are teaching the group, starting with the senior staff, on ways to improve our work culture.

It is easy to say we want a good work culture, but sometimes we don't really know what it is. There is a methodology and process that we have adopted. We have tried this in one part of the downstream business and I am quite encouraged by the results, so now we are cascading it throughout the group.

In addition to the six measures, we have also simplified our corporate agenda, which are our vision, mission, business strategic thrusts and shared values. We are strong in terms of shared values, loyalty, professionalism, integrity and cohesiveness, but I want to enhance them. So, we have sort of relaunched our vision, mission and shared values. We did some tweaking and it was necessary because our demographics now are very different.

We have about 70 nationalities in the group, with 55 per cent being younger than 35 years old. I keep telling my management that we have no choice but to change our management style. What worked for us 25 years ago may no longer work in today's environment.

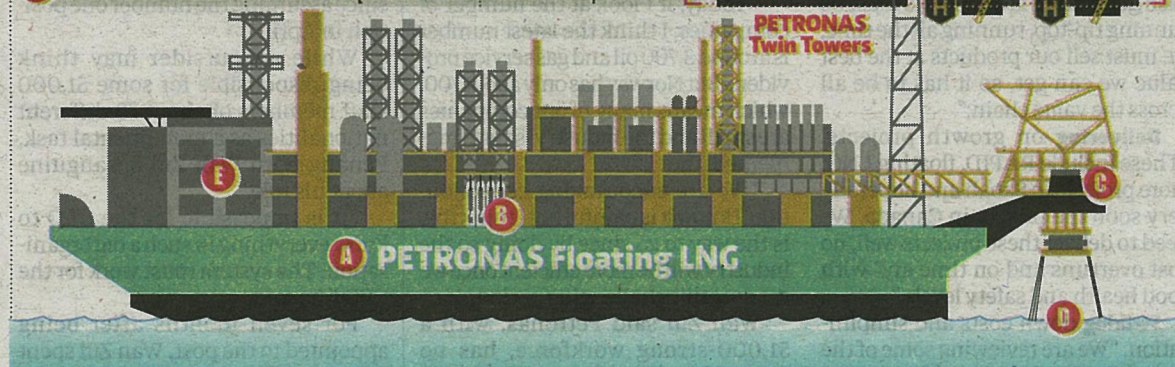
Q: How will these measures to strengthen internally impact Petronas' existing projects?

A: Projects that we have sanctioned will go ahead. Those projects that we have taken final investment decisions will go ahead. But moving forward, we are looking to bring the costs down, for instance, rebidding for some of the packages in the RAPID Pengerang project. The reason is commodity prices have come down a lot since the first time we made the bids. Steel is a big component in terms of our projects and we are seeing better (lower) numbers now than what we saw. Those we have signed, we revisit our technical specifications. So, the contract is there and the contractor is working, but we revisit our technical specifications. Where we can go lower by cutting costs, we will do so. In the end, we have been seeing quite good numbers.

The other area where we can cut capex is on upstream operations. The dynamics is like this — we can cut a lot of capex but we will see the impact maybe only five or six years later. So, a lot of debate internally has been going on to hit the sweet spot. We don't want to cut too much at the risk of having our production dropping, say in 2020 or 2021. We are doing about 500,000 barrels per day. That is the sweet spot. There is also a natural decline of maybe 10 to 12 per cent. So, we need to reinvest to maintain our production. When we cut capex we take into consideration

Key design parameters

	PFLNG 1	PFLNG 2
Location	Kanowit Gas Field, 180km offshore Bintulu	Rotan Gas Field, 240km offshore Kota Kinabalu
A Hull size	300m (L) x 60m (W) x 33m (D)	321m (L) x 64m (W) x 31m (D)
Capacity	1.2 MTPA	1.5 MTPA
LNG storage capacity	177,000m ³	177,000m ³
B LNG offloading	Cryogenic marinised loading arm	Cryogenic marinised loading arm
C FLNG mooring	External turret mooring	External turret mooring
Loading	Side by side	Side by side
D Water depth	70m - 200m	500m - 1500m
Design life	20 years	20 years
Inlet design pressure	65 bars atmospheric	65 bars atmospheric
E Accommodation	100 - 150 personnel	100 - 150 personnel



the implication. There is a limit to how much capex we can cut. I can cut a lot today and build up cash but I don't think that is the best way for the organisation.

Q: What about the number of rigs in operation?

A: The number of rigs has come down. We had more than 30 rigs at one time in Malaysian waters. By year-end, we will have just between 15 and 19 rigs.

Q: Naturally, the supporting industries in the oil and gas services sector are also feeling the impact?

A: They are very much feeling the impact. I think because once we cut back on our activities, they will be impacted. I think there has been retrenchment and downsizing within the service providers. As much as we would like to support the Malaysian-owned and operated services companies, I think this is also the time to be addressing the inefficiencies. Today, if I look at the number of companies, I think the latest number is around 3,700 oil and gas service providers. But Norway has only about 700. This means that many of our companies are small and the industry is very fragmented. We are encouraging consolidation. I know it is painful but I think this is the way to go since by doing so, the industry will be more efficient once we get over this challenging period.

Q: You expect a shakeout within the industry where the weak ones will have to close shop and the fittest will survive?

A: I think it is only natural. For

example, we have eight fabrication yards in Malaysia. That is just too many. It is just a matter of time before some will just drop out or consolidate. We do not have the regulatory authority like Bank Negara has on the consolidation of the banking industry. To a certain extent, we will try to push for consolidation. It may be painful to some but it is something that needs to be done.

Q: Related to that, Petronas is an important source of revenue for the government. In the current weak environment, is the government expecting the same level of dividend from Petronas?

A: So far, the shareholders fully understand the situation. But one thing I like to point out is that the oil and gas contribution to the government revenue in 2009 was around 40 per cent. But last year, it was about 29 per cent. The percentage is dropping over the years. What that means is that the government is less dependent on the oil and gas industry, which is a good sign. This year, we have committed to the government to pay RM26 billion in dividend and we will be paying. So far, we have paid RM14 to RM15 billion. For next year's dividend, we are still discussing. Last year was RM29 billion.

Q: Will there be any change in Petronas' dividend policy?

A: We don't have a dividend policy. But we take into account the average that our peers will pay out as dividends.

Q: A lot of people are discussing how much longer will we be

enjoying our oil and gas reserves. Comment.

A: When I joined the company 32 years ago, they said the reserves would last 17 years. But 32 years have passed. I think it is always a function of how much we produce and how active are our exploration activities. Over the years, we have explored within Malaysian territory, technology has improved and we know our area better. In terms of resources (reserves), we have 23.2 billion barrels of oil equivalent. Based on this and our production level last year, this means 27 years for oil and 44 for gas. This may change as we discover more resources. But I must also say that all the easy fields are being developed. Now we need to go more towards the frontier and deeper waters. So the cost of development will be higher.

Q: What is the Petronas staff count now?

A: We have 51,000 staff. But we are fortunate that with the coming on-stream of new projects, we are able to redeploy staff — for example, many of the workforce in the upstream divisions have been redeployed to the RAPID project. If there is no RAPID, then we may come to a situation where we will have to rightsize the organisation. There is no freeze in hiring. I do not want to freeze hiring. We had some experience in the past where we stopped hiring but later felt the impact some years later. The hiring will continue but maybe at a slower pace. We still need to bring in new people. We have not come to a point where we have to rightsize.

Q: What are your priorities in

your new role in Petronas?

A: The DNA of Petronas is that we are always in a position of trust. That will continue. It is very much linked to our shared value, integrity and professionalism. I always remind myself and my management team that we need to do what's best for the company. So in that sense, we are strongly guided by that principle. We are also custodian of the country's strategic resources. In terms of the people, our demographics have changed a lot. In terms of management style, I think management has got to be more engaging. People want to know what is going on and how they can play their role in the company. I think we are putting in a lot of effort in terms of communicating with our people. In my first few months, I spent a lot of time visiting our various units to engage with our people and to align everybody with our mission, especially in these difficult times. My set of challenges is very different from my predecessors because of the environment.

Going forward, on this culture bit, we have established a set of cultural beliefs. It is predicated on a model that our day-to-day experience working in the office will shape our beliefs about the company. We try to fix our day-to-day experience because it shapes our beliefs and that will translate into actions which ultimately produce results. That is the framework that we work on. How we do this is by going back to finding ways to simplify our operations, for instance. Last year, when I was in the downstream division, I eliminated 28 per cent of reports. The work still goes on and we still make money, but there were too many people doing reports. I think that is the trap that big organisations fall into over time. Now is the time where we want to look at how to make the experience better for everybody.

We take pride in our governance. But there is room for improvement. Like I've said, our demographics have changed, with the company now having more people of the younger generation. So, management style has got to change. I feel there are a lot of untapped potentials in this company. If we can unleash this potential, we can do a lot more things. We also take note now of the number of females in the organisation. We got our first lady drilling supervisor and now we have mothers' rooms, many of which we converted from smoking rooms. We also allow three months' maternity leave. These are to attract the female gender because there are more female graduates now. These are the kind of things that will make the company attractive.

Q: Some people say you might be handicapped slightly for not having spent time in the upstream sector of the business.

A: I really don't see why not. Just so you know, Shell and Total also appointed their CEOs from their respective downstream business. People forget that I was on the board of Petronas Carigali for more than 10 years. And you have people who can read seismic data and other data. I don't have to read logs and all that. But running of a business, I think there are certain disciplines that can be useful.

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Aligning everybody to give his best

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Q: Managing Malaysia's No. 1 company, how do you take these challenges personally? For example, how many hours do you spend in the office every day?

A: I believe for an organisation like this, first, the system must work. It is just impossible for the CEO to be in control of the 51,000 personnel in the company. In terms of time, I am in the office by 9am and I think I spend probably between 10 to 11 hours in the office every day. The job also involves a lot of travelling, but I try to limit being away from the office to a maximum of 10 days a month. I still believe that it is important to spend time in the office and we do have meetings as well. I think the DNA of the company is very important. Everybody understands that this is a position of trust, a majority give their best and it is a matter of aligning everybody to give his best. I think that is the

role of management.

Q: What is your take on the Bumiputera agenda?

A: My view is that it is in line with the government agenda. We should nurture owner-operators, not agencies or rent-seekers. That should be the way. On merit and owner-operators. We try to eliminate agencies. This is my intent. I want to help owner-operators. They are the ones who invest money, go to their offices and really work for their businesses and provide employment. We have seen many successful Bumiputera companies doing just that. We support them in line with government policy.

Q: Tell us a bit about work-life balance.

A: I have been asked this many times. I believe it is all very subjective. I think it is how you define this balance, but more importantly, you must be comfortable with it. I also believe there is a lot of

trade-offs and I tell myself that if I am comfortable with the trade-offs, that is the balance that I want. I told people that, in these two to three years, my work will consume my life. I just tell myself that as long as I am comfortable, that will be the balanced position for me.

Q: What is it that has made you stay at Petronas this long?

A: I think I felt that I was part of a winning team. When I joined, Petronas was small. We grew and I always felt that I was part of a winning team. Then we went international. I think this has kept me here. I have no regrets and I think, in terms of personal development, too, Petronas has invested a lot in me. I am very grateful to the organisation.

Tomorrow: How the RAPID Pengerang and Canadian gas projects will reshape Petronas's future. Also on Petronas looking at solar energy and its view on its investments in an F1 team